

2003 Segal State Health Benefits Survey: Medical Plan Design for Employees and Retirees

Plan design can be one of the most controllable mechanisms used to manage health plan benefit costs. This report of data from the 2003 *Segal State Health Benefit Survey*,¹ the third in a series,² focuses on medical plan design for state employees and retirees. Except where noted, the information provided is for the most prevalent state health plan, defined as the plan with the highest enrollment. Graphs 1 and 2 summarize the percentages of state employees and retirees enrolled in each plan type: indemnity plans, preferred provider organizations (PPOs), point-of-service (POS) plans and health maintenance organizations (HMOs).

HIGHLIGHTS OF SURVEY FINDINGS ABOUT PLAN DESIGN

Survey findings about plan design include the following:

- Thirty-nine percent of states participating in the survey reported an

in-network, per-person deductible of less than \$100 for single employees in their PPO plan in 2003.

- Sixty-five percent of state managed care plans in the survey had an office visit copayment of either \$10 or \$15 for employees.
- Thirty percent of all states participating in the survey had an in-network, per-person, out-of-pocket maximum for employees in excess of \$2,000.
- Eighty-one percent of state plans in the survey paid 100 percent of allowable charges as a secondary payer in a coordination-of-benefits (COB) situation.

DEDUCTIBLES

Structuring deductibles to encourage and reward in-network utilization helps to control plan costs. One state (Colorado) reported having a high-deductible plan, with a per-person deductible of \$2,000 as its primary plan for employees. Table 1 reports average annual deductibles by plan type.



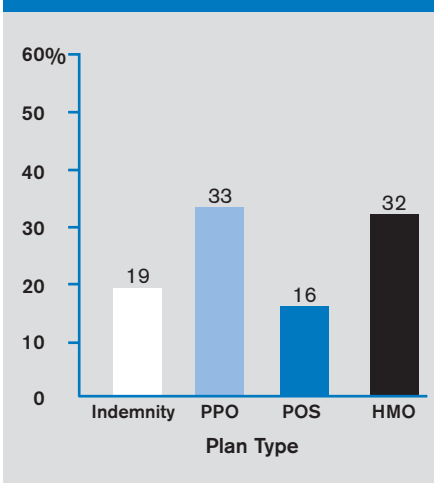
Table 1: Average Annual Deductibles, 2003

Plan Type	Average Annual Deductible
Indemnity (Employee-Only Coverage)	\$310
Indemnity (Retiree-Only Coverage)	\$226
PPO In-Network Services (Employee-Only Coverage)	\$322
PPO Out-of-Network Services (Employee-Only Coverage)	\$567

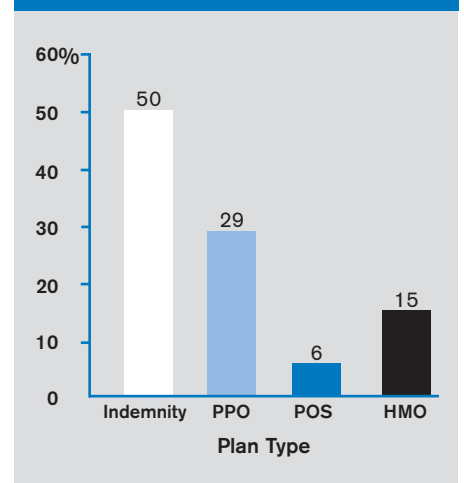
¹ In 2003, The Segal Company surveyed all 50 states, after collecting information available on state Web sites and requesting enrollment packages from each state (steps that were taken to streamline the survey process for participating jurisdictions). Thirty-nine states provided their enrollment packages and 34 states completed all or portions of the survey questionnaire. The 2003 *Segal State Health Benefit Survey* covers more than 80 percent of total state health plan enrollment. Together, the participating states provide health benefits for more than three million employees and retirees.

² The first report in the series, 2003 *Segal State Health Benefit Survey: Medical Benefits for Employees and Retirees*, is available in PDF format on the following page of the Segal Web site: http://www.segalco.com/publications/surveysandstudies/2003statesurvey_medicalbenefits.pdf The second report in the series, 2003 *Segal State Health Benefit Survey: Prescription Drug Coverage for Employees and Retirees*, is available in PDF format on the following page of the Segal Web site: http://www.segalco.com/publications/surveysandstudies/2003statesurvey_Rxbenefits.pdf

Graph 1: Percentage of State Employees Enrolled in Each Plan Type Nationwide, 2002



Graph 2: Percentage of State Retirees Enrolled in Each Plan Type Nationwide, 2002



Segal State Health Benefits Survey: Medical Plan Design

Table 2: Average Annual Deductibles for Employee-Only PPO Coverage by Range and Percentage of States Offering Them in 2003

Range of Annual Deductibles	Percentage of States*	
	In-Network Deductible	Out-of-Network Deductible
\$0 – 99	39%	25%
\$100 – 199	11%	13%
\$200 – 299	17%	13%
\$300 – 399	17%	19%
\$400 – 499	11%	6%
\$500+	6%	25%

* Percentages do not equal 100 percent due to rounding.

Table 3: Average Annual Deductible for Retiree-Only Indemnity Coverage by Range and Percentage of States Offering Them in 2003

Range of Annual Deductibles	Percentage of States
\$0 – 99	25%
\$100 – 199	25%
\$200 – 299	17%
\$300 – 399	25%
\$400 – 499	8%
\$500+	0

See Table 2, above, for information about in- and out-of-network deductibles for employees enrolled in PPOs. Table 3, which is also above, shows information about deductibles for retirees in indemnity plans.

COINSURANCE

Coinsurance data for hospital services and medical and surgical procedures

is reported in Table 4 for employees and Table 5 for retirees. Key findings are noted below:

➤ **Hospital Services** Only 11 percent of state PPO plans covered 100 percent of in-network hospital services for employees. Almost 40 percent of all PPO plans for employees covered out-of-network

hospital services at a coinsurance level of 70 percent. All retiree indemnity plans covered hospital services at 80 percent or more.

➤ **Medical and Surgical Procedures**

Seventeen percent of PPO plans for state employees covered 100 percent of medical and surgical procedures performed within the network. Forty-four percent of state PPOs covered medical and surgical procedures at a rate of 80 percent. For services outside of the network, 44 percent of plans paid 70 percent. The most common coinsurance rate for both medical and surgical and hospital coverage for employees in PPOs was 80 percent, offered by 44 percent of the states with PPOs. Less than 1 in 5 plans (17 percent) still offer 100 percent benefit coverage levels even for in-network providers.

Over half of indemnity plans for state retirees had a coinsurance rate of 80 percent for medical and surgical procedures. Surprisingly, 36 percent of states paid all the costs of indemnity medical and surgical procedures for retirees.

Table 4: Employee Coinsurance for Medical and Surgical and Hospital Procedures in PPO Plans by Percentage of States Offering Each

Coinsurance	Percentage of States			
	Medical & Surgical		Hospital	
	In-Network Services	Out-of-Network Services	In-Network Services	Out-of-Network Services*
Less than 70%**	0	28%	0	28%
70%***	6%	44%	6%	39%
80%****	44%	22%	44%	28%
90%*****	33%	6%	39%	6%
100%	17%	0	11%	0

* Percentages in this column do not equal 100 percent due to rounding.

** The survey statistics reported for less than 70 percent coinsurance includes PPOs that use a coinsurance rate of 65, 60 and 50 percent.

*** The survey statistics reported for 70 percent coinsurance also include PPOs that use a coinsurance rate of 75 percent.

**** The survey statistics reported for 80 percent coinsurance also include PPOs that use a coinsurance rate of 85 percent.

***** The survey statistics reported for 90 percent coinsurance include PPOs that use a coinsurance rate of 95 percent.

Table 5: Retiree Coinsurance for Medical and Surgical and Hospital Procedures in Indemnity Plans by Percentage of States Offering Each

Coinsurance	Percentage of States	
	Medical & Surgical	Hospital
Less than 70%	0	0
70%	0	0
80%	64%	45%
90%	0	0
100%	36%	55%

PREVENTIVE CARE

Maintaining a regular schedule of examinations, immunizations and vaccinations can prevent more serious complications down the line. Almost 30 percent of all plans for state employees cover in-network preventive care at 100 percent; only 6 percent do so for

Table 6: Employee Coinsurance for Preventive Care in PPO Plans by Percentage of States Offering Each

Coinsurance	Percentage of States	
	In-Network Services*	Out-of-Network Services
Less than 70%**	0	29%
70%***	6%	47%
80%****	35%	18%
90%	29%	0
100%	29%	6%

* Percentages in this column do not equal 100 percent due to rounding.

** The survey statistics reported for less than 70 percent coinsurance includes PPOs that use a coinsurance rate of 65, 60 and 50 percent.

*** The survey statistics reported for 70 percent coinsurance also include PPOs that use a coinsurance rate of 75 percent.

**** The survey statistics reported for 80 percent coinsurance also include PPOs that use a coinsurance rate of 85 percent.

out-of-network preventive care. For retirees, the results are similar: 22 percent of state indemnity plans paid 100 percent of the cost of preventive care.

See Tables 6 and 7, above, for a breakdown of preventive care coinsurance rates.

COPAYMENTS

Most states surveyed had either \$10, \$15 or \$20 office visit copayments for in-network visits for employee coverage. One state (Missouri) had a \$30 copayment and another state (Wisconsin) did not require a copayment in its managed care plan (an HMO). See Table 8, below, for information about office visit copayments.

Table 8: Office Visit Copayments for Employees (All Managed Care Plan Types) by Percentage of States Offering Each

Copayment	Percentage of States*
\$0	4%
\$5	4%
\$10	39%
\$15	26%
\$20	22%
\$30	4%

* Percentages do not equal 100 percent due to rounding.

OUT-OF-POCKET MAXIMUMS

A \$1,000 network out-of-pocket maximum is still common. Thirty-seven percent of plans offered that coverage.

(This is a different approach to the new high-deductible health plans being offered that do not start paying benefits until a \$1,000 deductible is satisfied, excluding any money in a health savings account). Table 9 on page 4 summarizes out-of-pocket maximums for employee-only coverage.

Most PPO plans had out-of-pocket maximums for employee-and-family coverage in excess of \$2,000 for both in- and out-of-network benefits. See Table 10 (also on page 4).

Plans for state retirees had out-of-pocket levels similar to the maximums for state employees. Thirty-five percent of participating states had in-network, per-person, out-of-pocket maximums below \$1,000. Seventy-one percent of plans had out-of-network, out-of-pocket maximums of \$2000 or more. Table 11 on page 4 presents results for retiree-only coverage.

The survey found that retirees with dependents tended to have out-of-pocket maximums of \$2,000 or more. Table 12 on page 4 summarizes the findings for retiree-and-spouse coverage.

COORDINATION OF BENEFITS

Eighty-one percent of states paid 100 percent of allowable charges as secondary payer in a COB situation. These results, which are presented in Graph 3 in the next column, did not vary between plans for employees and plans for retirees.

Table 7: Retiree Coinsurance for Preventive Care in Indemnity Plans by Percentage of States Offering Each

Coinsurance	Percentage of States
Less than 70%	11%
70%	0
80%	56%
90%	11%
100%	22%

PLAN DESIGN CHANGES BEING CONSIDERED

The 2003 *Segal State Health Benefit Survey* asked states about the cost management programs they were planning to implement. The programs that are being considered most seriously are ones that shift more of the cost burden onto plan participants. Forty-five percent of states are very likely to consider raising member copayments, while only nine percent were seriously considering implementing a consumer-driven health plan (e.g., a health reimbursement arrangement with a high deductible).

OUTLOOK AND COMMENTARY

High medical trend rates are expected to continue this year. The 2004 *Segal Health Plan Cost Trend Survey* reports that medical cost trends are expected to increase by 13.5 percent for PPO plans, 15.0 percent for indemnity plans and 12.5 percent for HMOs in 2004 for active employees and retirees under age 65. Although the expected increases are slightly less than for 2003, at these double-digit rates of increase,

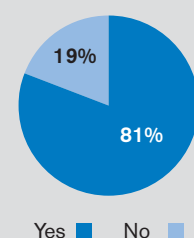
Graph 3: Percentage of States whose Plans Paid 100 Percent of Allowable Charges as a Secondary Payer


Table 9: Out-of-Pocket Maximums for Employee-Only Coverage in PPO Plans by Range and Percentage of States Offering Each

Range of Out-of-Pocket Maximums	Percentage of States	
	In-Network Maximum	Out-of-Network Maximum
Less than \$1,000	37%	8%
\$1,000 – 1,499	23%	4%
\$1,500 – 1,999	10%	13%
\$2,000 or more	30%	75%

Table 10: Out-of-Pocket Maximums for Employee-and-Family Coverage in PPO Plans by Range and Percentage of States Offering Each

Range of Out-of-Pocket Maximums	Percentage of States	
	In-Network Maximum	Out-of-Network Maximum
Less than \$1,000	4%	5%
\$1,000 – 1,499	24%	5%
\$1,500 – 1,999	8%	0
\$2,000 or more	64%	90%

Table 11: Out-of-Pocket Maximums for Retiree-Only Coverage in Indemnity Plans by Range and Percentage of States Offering Each

Range of Out-of-Pocket Maximums	Percentage of States*	
	In-Network Maximum	Out-of-Network Maximum
Less than \$1,000	35%	12%
\$1,000 – 1,499	23%	12%
\$1,500 – 1,999	12%	6%
\$2,000 or more	31%	71%

* Percentages do not equal 100 percent due to rounding.

Table 12: Out-of-Pocket Maximums for Retiree-and-Spouse Coverage in Indemnity Plans by Range and Percentage of States Offering Each

Range of Out-of-Pocket Maximums	Percentage of States	
	In-Network Maximum	Out-of-Network Maximum
Less than \$1,000	5%	0
\$1,000 – 1,499	15%	13%
\$1,500 – 1,999	0	0
\$2,000 or more	80%	87%

the cost of medical services will double within only six years.³

There is no single strategy for controlling health plan costs. However, a critical element in plan cost management is an effective plan design that is regularly reviewed and updated in response to

trends and changes in the marketplace. Plan design management includes:

- Establishing appropriate cost-sharing provisions,
- Implementing plan features to mitigate the impact of catastrophic claims, and
- Considering plans that offer first-dollar health reimbursement arrangements attached to high-deductible options.

³ See the 2004 *Segal Health Plan Cost Trend Survey*, which is available, in PDF format, on the following page of Segal's Web site: <http://www.segalco.com/publications/surveysandstudies/2004trendsurvey.pdf>

Ideally, plan management should be balanced with individual health management, which encompasses wellness/preventive care incentives, provider profiling (to channel patients to best performing providers) and the promotion of disease management programs, and vendor management.



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